OIPE JC130
AUG 1 8 2003
PATENT & TRADEMARK OFFICE

Dabrieu Flecrors #20/appeal Brief 10-16-03

In the United States Patent and Trademark Office

In re Wilcox, et al.		BOARD OF PATENT APPEALS AND INTERFERENCES
Serial No.:	09/292,887	#20
Filing Date:	April 16, 1999	
For:	System and Method for Administration of Credit Card Incentive Program Wherein Credit Card Holder Earns Rebate in Form of Installment Loan Advance Payment Through Use of Credit Card	PATENT APPEAL
Docket No.:	286052-002	
Art Unit:	3622	
Examiner:	Champagne, Donald	

RECEIVED
AUG 2 2 2003
GROUP 3600

APPELLANT'S APPEAL BRIEF

08/20/2003 MBIZUNES 00000021 09292887
01 FC:1402 320.00 OP

DECHERT LLP
A Pennsylvania Limited Liability Partnership
Princeton Pike Corporate Center
P.O. Box 5218
Princeton, NJ 08543-5218
(609) 620-3200

Attorneys for Appellant

ARTHUR E. JACKSON
On the Brief

153692.2.07

copy 1/3

TABLE OF CONTENTS

TABLE OF AUTHORITIES

FEDERAL CASES

STATUTES

OTHER

1. **Real Party in Interest**

The inventors have assigned their interest to Fleet Credit Card Services, L.P. Accordingly, Fleet Credit Card Services, L.P. is the real party in interest.

2. **Related Appeals and Interferences**

On information and belief, there are no other appeals or interferences that will directly affect or have a bearing on the Board's decision in this Appeal.

3. **Status of the Claims**

Claims 1-22 are in the application. All of the pending claims are subject to one or more rejections under 35 U.S.C. §103(a). Claims 1-22 are appealed.

4. **Status of Amendment Filed After Final**

An Amendment After Final was mailed on June 18, 2003, and stamped received by the United States Patent and Trademark Office mailroom on June 23, 2003. The Amendment After Final included amendments to claims 21 and 22 to more clearly define the present invention. An Advisory Action dated July 31, 2002 confirms that the Amendment removes a rejection under 35 U.S.C. §112, and states that the Amendment will be entered for purposes of this Appeal. The claims on appeal are as listed in Appendix A.

5. **Summary of Invention**

The invention provides a system and method for administering a credit card incentive program wherein a credit card issuer issues a credit card to a credit card holder, who has an **outstanding** installment loan account with a lending institution; wherein the credit card holder can earn a **periodic** rebate through use of the credit card, which rebate is in the form of a payment to the lending institution made by the credit card issuer on behalf of the credit card holder; wherein the payment is applied against the outstanding principal on the installment loan

account; wherein the credit card issuer and lending institution are not the same financial institution; and, wherein the rebate is transmitted to the lending institution by the credit card issuer without involving the credit card holder.

6. **Issue**

(a) The issue is whether the suggested combination/modification of the references of record is improper.

7. **Grouping of claims**

The rejections of record can be decided on the basis of independent claims 1, 12, 21 and 22.

8. **Argument**

(a) **Rejections Under 35 U.S.C. § 103(a)**

Claims 1-22 stand rejected under 35 U.S.C. § 103(a) as unpatentable over Wells Fargo (Dialog file 16, document number 02812176, copy attached as Appendix B) alone or in combination with CardTrak (January 1994 issue, copy attached as Appendix C) and/or Borowsky (Dialog file 15, document number 00729051, copy attached as Appendix D). Specifically, the Office asserts, in relevant part, that

> Wells Fargo teaches a credit card incentive system wherein a credit card issuer (Wells Fargo) provides a reduced mortgage interest rate to the credit card holder as a reward for the holder's use of the credit card, which reads on makes a payment on behalf of the credit card holder to a lending institution to be applied against the outstanding principal on a note for a loan made to the credit card holder, which note is held by the lending institution.
>
> 8. Wells Fargo does not teach that the credit card issuer and lending institution are not the same financial institution. This ownership limitation is nonfunctional descriptive material, and was accordingly not given patentable weight.

9. Ownership limitations - A difference in ownership of financial institutions is not a practical application within the technological arts. Hence "wherein the credit card issuer and lending institution are not the same financial institution" is not statutory matter (MPEP 2106.IV.B.2(b) at p. 2100-15 revised August 2001). Also, this limitation constitutes descriptive material that does not describe a functional interrelationship (MPEP 2106.IV.B.1(b) pp. 2100-13 and 2100-14 revised August 2001).

10. Ownership of the institution(s) can be subdivided and distributed without affecting any functional relationships within or between the institution(s). Whether the issuer and lender are the same or different institutions has no bearing on the functional or technological properties of the invention. "A" can issue credit cards and "B" can makes loans whether the two entities are divisions of the same corporation, independent corporations, or corporations associated by some degree of common ownership. In every case, the instant invention can be practiced without functional technological differences.

11. Alternatively, because the sale of mortgages is common in the secondary market for the advantage of generating capital, it would have been obvious to one of ordinary skill in the art, at the time of the invention, to sell the loan to a non-owned entity, which would read on a lending institution not the same as the card issuer.

12. Applicant argues (p. 4, bottom para.) that "the credit card issuer and the financial institution are not the same financial institution" logically necessitates a physical and legal separation of the two business entities, and that this is a structural limitation, indeed as structural as nuts and bolts. The fact that the two financial institutions or businesses could be bought or sold or re-formed into another business entity is of no moment. Nuts and bolts can be melted and re-formed into a metal plate, yet the nuts and bolts are certainly structural elements. Similarly, if a credit card issuer and a financial institution are or become the same financial institution, at that point the claims do not read on a credit card incentive system or such a configuration.

13. The argument as to *structure* is not pertinent to the rejection. The rejection is based in part on the judgment that the ownership limitation does not exhibit any *functional* interrelationship with the way in which the invention is performed or constituted (para. 9 above). That is, the invention is unaffected by the ownership limitation. (Applicant states at the top of p.5 that

> the limitation at issue has a functional interrelationship with the way in which computing processes are performed, but gives no evidence.) That is the essential test for non-statutory descriptive material (MPEP 2106.IV.B.1(b) at pp. 2100-13 and 2100-14 revised August 2001).

(Paper No. 16, pages 3-4).

Appellant submits that this rejection is improper. As set forth in detail below, the rejection is based on a hindsight-driven reconstruction of the invention and does not withstand scrutiny because there is insufficient motivation in the cited art, when read by one of ordinary skill in the art, to modify Wells Fargo as suggested by the Office to obtain the invention as defined in the claims.

(i) Modifications Would Destroy Intended Function

The modification of the teachings of the Wells Fargo reference suggested by the Office in support of this rejection would destroy the intended function of the credit card system taught by Wells Fargo. It goes without saying that if a prior art reference is cited that requires some modification in order to meet the claimed invention or requires some modification in order to be properly combined with another reference and such a modification destroys the purpose or function of the invention disclosed in the reference, one of ordinary skill in the art would not have found a reason to make such modification. See, e.g., In re Gordon, 733 F.2d 900, 902, 221 USPQ 1125 (Fed. Cir. 1984).

The claimed invention defines a credit card incentive system in which a credit card issuer makes **periodic** payments (e.g. annually) on behalf of a credit card holder to a lending institution, which is not the credit card issuer, to be applied directly against **outstanding** principal on a note for a loan made to the credit card holder. In stark contrast, Wells Fargo teaches a credit card rebate system which provides a **one-time** benefit. That is, under the teachings of Wells Fargo, a credit card holder can, over time, earn a rebate redeemable against "out-of-pocket loan fees" or to obtain a "lower interest rate" on a **one-time** basis when obtaining a **new Wells Fargo mortgage**. Under the teachings of Wells Fargo, the credit card holder can only receive a rebate if he or she qualifies for and obtains a Wells Fargo mortgage. Moreover, the rebate is a **one time** rebate redeemable only at the time of opening of the new Wells Fargo

mortgage. Hence, under the teachings of Wells Fargo, the credit card account must be established well in advance of the opening of the mortgage account to give the credit card holder an opportunity to earn the **one-time** rebate redeemable at the time of creating the mortgage.

The specific purpose of the credit card rebate system taught by Wells Fargo is to encourage **Wells Fargo credit card holders** to seek a **Wells Fargo mortgage**. As noted above, the Wells Fargo reference requires the credit card account to predate the mortgage, provides for only a one-time rebate benefit only redeemable at the moment of opening a new mortgage and requires the credit card issuer and lender to be the same financial institution. The modification of the teachings of Wells Fargo to read on the claimed invention would specifically destroy these intended functions of the Wells Fargo credit card rebate system. Accordingly, the prior art of record fails to teach or suggest the claimed invention as a whole.

(ii) References Teach Away

Moreover, the references cited by the Office specifically teach away from the claimed invention. The Supreme Court held in U.S. v. Adams, 383 U.S. 39, 148 USPQ 479 (1966), that one important indicium of nonobviousness is "teaching away" from the claimed invention by the prior art or by experts in the art at (and/or after) the time the invention was made. In short, teaching away is the antithesis of the art suggesting that the person of ordinary skill go in the claimed direction. In re Fine, 837 F2d 1071, 5 USPQ2d 1596 (Fed. Cir. 1988). Essentially, teaching away from the art is a *per se* demonstration of lack of *prima facie* obviousness.

In constructing a *prima facie* assertion of obviousness, the Office is obligated to put itself in the mind frame of one of ordinary skill in the art at the time the invention was made. The Appellant, as it has here, has typically laid before the Office a rationale for the invention which, in hindsight, appears straightforward. Notwithstanding, the Court of Appeals for the Federal Circuit has strictly warned that the task is to seek to fairly view the cited art as it would have been viewed at the time the invention was made.

Appellant respectfully points out that the claimed invention, relates to a credit card incentive system in which a credit card issuer makes **periodic** payments (e.g. annually) on behalf of a credit card holder to a lending institution, which is not the credit card issuer, to be applied

directly against **outstanding** principal on a note for a loan made to the credit card holder. In stark contrast, Wells Fargo teaches a credit card rebate program in which a one time benefit is acquired for redemption when obtaining a new mortgage loan from Wells Fargo. Hence, Wells Fargo specifically teaches away from at least three aspects of the claimed invention. First, Wells Fargo teaches away from a periodic, ongoing rebate system where multiple rebates may be obtained. Second, Wells Fargo teaches away from a system in which the credit card issuer and the institution holding the note on the installment loan account are different financial institutions. Third, Wells Fargo teaches away from a system in which the creation of the credit card account does not predate the creation of the mortgage.

The Office asserts that the ownership limitation, discussed above, does not exhibit any *functional* interrelationship with the way in which the invention is performed or constituted. Applicant submits that the Office's position relative to the ownership limitation is improper. An analysis of this limitation leads to the inevitable conclusion that it is indeed statutory subject matter that must be accorded patentable weight. It is wholly inappropriate, and in contravention of 35 U.S.C. § 101, to disregard this aspect of the claimed invention. The phrase "the credit card issuer and lending institution are not the same financial institution" logically necessitates a physical and legal separation of the two business entities. This is a structural limitation, indeed as structural as nuts and bolts and rivets. The fact that the two financial institutions or businesses could be bought or sold or re-formed into another business entity is of no moment. For example, nuts, bolts and rivets can be melted down to form a metal plate, yet the nuts and bolts and rivets are certainly structural elements. Under such conditions, a claim directed to nuts, bolts or rivets would no longer read on an apparatus that lacks such structural elements but instead includes a metal plate. Similarly, if it so happens that a given credit card issuer and lending institution are or become the same financial institution, at that point the claimed invention would not read on the credit card incentive system for such a configuration. However, this possibility does not and cannot render the claimed subject matter non-statutory.

Moreover, the limitation at issue has a functional interrelationship with the way in which computing processes are performed. As such the limitation at issue and the invention as a whole are squarely within the realm of statutory subject matter under 35 U.S.C. § 101. See MPEP

2106.IV.B.2(b). The claimed invention is directed to the application of a credit card incentive **periodic** rebate benefit in the form of periodic payments against **principal** in connection with an outstanding installment loan account. As pointed out above, in the claimed invention, the credit card issuer and the lending institution are not the same financial institution and the rebates are periodically provided on an ongoing basis. In stark contrast, the Wells Fargo rebate program involves a **one-time** benefit in the form of a reduction in the "out-of-pocket loan fees" or a "lower interest rate" for a newly created mortgage loan. The rebate and the associated computing processes under the teachings of Wells Fargo are only applicable if the credit card issuer and lending institution are the same financial institution and the rebate is redeemed at the time the mortgage is created. The claimed invention is structurally and functionally distinct by providing rebate benefits that are applied against outstanding principal on a pre-existing installment loan account and that are recurrent. That is, the rebate benefits provided under the claimed invention accrue on a periodic--non-one time--basis. In contrast, under the teachings of Wells Fargo, the credit card account is created before the mortgage account in order to accrue a benefit at the moment the mortgage account is created. Accordingly, the claimed invention provides a mechanism and the associated computing processes to attract credit card customers who have pre-existing installment loans (i.e., installment loans which exist prior to the creation of the credit card account). Wells Fargo, on the other hand, teaches a credit card system designed as "a means to attract mortgage customers". See Borowsky, Appendix D, page 2, following "NEW CARDHOLDERS".

Accordingly, for the reasons stated above, the art of record specifically fails, among other things, to teach or suggest the following limitations of the claimed invention, namely: (a) a credit card incentive system that provides **periodic** benefit payments applied against outstanding principal on an installment loan account; (b) a credit card incentive system providing the periodic benefit payments wherein the credit card issuer and the holder of the installment loan note are not the same financial institution; and (c) a credit card incentive system wherein the creation of the installment loan predates the creation of the credit card account. Accordingly, the prior art of record fails to teach or suggest the claimed invention *as a whole*.

In view of the foregoing, Applicant respectfully submits that the rejection is in error and should be withdrawn.

CONCLUSION

For the foregoing reasons, Appellant respectfully requests that the rejection under 35 U.S.C. § 103(a) with respect to all of the pending claims be reversed and the pending claims in the application be allowed.

Arthur E. Jackson, Reg. No. 34,354
DECHERT LLP
Princeton Pike Corporate Center
~~P.O. Box 5218~~
Princeton, NJ 08543-5218
(609) 620-3200

Attorney for Appellant

Dated: August 13, 2003

Appendices:

A: Claims on Appeal.
B: Wells Fargo (Dialog file 16, document number 02812176).
C: CardTrak (January 1994 issue).
D: Borowsky (Dialog file 15, document number 00729051).

APPENDIX A - COPY OF CLAIMS ON APPEAL

1. A credit card incentive system comprising a credit card and a computer system operable to periodically calculate the value of all purchases made by the credit card holder using the credit card during a period of time and periodically calculate an installment loan benefit amount, wherein a credit card issuer makes a payment on behalf of a credit card holder to a lending institution to be applied against outstanding principal on a note for a loan made to the credit card holder, which note is held by the lending institution, wherein the credit card issuer and lending institution are not the same financial institution.

2. The credit card incentive system of claim 1, wherein the payment is made by wire transfer.

3. The credit card incentive system of claim 1, wherein the payment is made by check.

4. The credit card incentive system of claim 1, wherein the payment is made by wire transfer if the amount of the payment exceeds a minimum value, otherwise the payment is made by check.

5. The credit card incentive system of claim 1, wherein the payment is a periodic payment.

6. The credit card incentive system of claim 5, wherein the size of the payment is determined based on the value of goods and services purchased by the credit card holder using a credit card issued by the credit card issuer.

7. The credit card incentive system of claim 6, wherein the size of the payment comprises a straight percentage of the value of goods and services purchased by the credit card holder using the credit card issued by the credit card issuer.

8. The credit card incentive system of claim 6, wherein the size of the payment comprises an incremented percentage of the value of goods and services purchased by the credit card holder using the credit card issued by the credit card issuer.

9. The credit card incentive system of claim 6, wherein the size of the payment further comprises a straight percentage of the amount of any interest charged to the credit card holder by the credit card issuer.

10. The credit card incentive system of claim 6, wherein the size of the payment further comprises an incremented percentage of the amount of any interest charged to the credit card holder by the credit card issuer.

11. The credit card incentive system of claim 5, wherein the period for the periodic payment is one year.

12. A computerized method for providing credit card incentive payments, comprising:

a) establishing a credit card account between a credit card issuer and a credit card holder, wherein the credit card holder has a loan with an outstanding principal balance for which a lending institution holds a note, wherein the credit card issuer and lending institution are not the same financial institution;

b) issuing a credit card to the credit card holder;

c) (1) periodically calculating the value of all purchases made by the credit card holder using the credit card during a period of time;

d) periodically calculating an installment loan benefit amount; and,

e) periodically paying to the lending institution the installment loan benefit amount, wherein the installment loan benefit amount is applied against the outstanding principal balance.

13. The method of claim 12, wherein the period of time is one year.

14. The method of claim 12, wherein the installment loan benefit amount is calculated as a straight percentage of the value of all purchases made by the credit card holder using the credit card during the period of time.

15. The method of claim 12, wherein the installment loan benefit amount is calculated as an incremented percentage of the value of all purchases made by the credit card holder using the credit card during the period of time.

16. The method of claim 12, further comprising:

c) (2) periodically calculating the value of all interest charged the credit card holder by the credit card issuer during the period of time.

17. The method of claim 16, wherein the installment loan benefit amount is calculated as the sum of:

a) a straight percentage of the value of goods and services purchased by the credit card holder using the credit card issued by the credit card issuer; and,

b) a straight percentage of the interest charged the credit card holder by the credit card issuer during the period of time.

18. The method of claim 16, wherein the installment loan benefit amount is calculated as the sum of:

a) an incremented percentage of the value of goods and services purchased by the credit card holder using the credit card issued by the credit card issuer; and,

b) a straight percentage of the interest charged the credit card holder by the credit card issuer during the period of time.

19. The method of claim 16, wherein the installment loan benefit amount is calculated as the sum of:

a) an incremented percentage of the value of goods and services purchased by the credit card holder using the credit card issued by the credit card issuer; and,

b) an incremented percentage of the interest charged the credit card holder by the credit card issuer during the period of time.

20. The method of claim 16, wherein the installment loan benefit amount is calculated as the sum of:

a) a straight percentage of the value of goods and services purchased by the credit card holder using the credit card issued by the credit card issuer; and,

b) an incremented percentage of the interest charged the credit card holder by the credit card issuer during the period of time.

21. A credit card incentive system comprising a credit card and a computer system operable to periodically calculate the value of all purchases made by the credit card holder using the credit card during a period of time and periodically calculate an installment loan benefit amount, wherein a credit card issuer makes a payment on behalf of a credit card holder to a lending institution to be applied against outstanding principal on a note for an outstanding installment loan account made to the credit card holder, which note is held by the lending institution, wherein the credit card issuer and lending institution are not the same financial institution.

22. A computerized method for providing credit card incentive payments, comprising:

a) establishing a credit card account between a credit card issuer and a credit card holder, wherein the credit card holder has an outstanding installment loan account with an

outstanding principal balance for which a lending institution holds a note, wherein the credit card issuer and lending institution are not the same financial institution;

b) issuing a credit card to the credit card holder;

c) periodically calculating the value of all purchases made by the credit card holder using the credit card during a period of time;

d) periodically calculating an installment loan benefit amount; and,

e) periodically paying to the lending institution the installment loan benefit amount, wherein the installment loan benefit amount is applied against the outstanding principal balance.

DIALOG(R)File 16:GALE GROUP PROMT(R)

02812176 Supplier Number: 43778920
Wells Fargo links its plastic with mortgages
San Francisco Examiner (CA), pC1
April 16, 1993
Language: English Record Type: Abstract
Document Type: Newspaper; Trade

ABSTRACT:
Wells Fargo has introduced a new credit card that gives users rebates on home mortgage loans at Wells Fargo. Standard card customers can earn up to $3,500/year in rebates, while gold card holders earn as much as $5,000/year. The savings can be used to pay out-of-pocket loan fees or to get a lower interest rate. To be eligible for the rebate, customers must qualify for a Wells Fargo mortgage.

PUBLISHER NAME: San Francisco Newspaper Agency
COMPANY NAMES: *Wells Fargo Bank N.A.
EVENT NAMES: *360 (Services information)
GEOGRAPHIC NAMES: *1USA (United States)
PRODUCT NAMES: *6020000 (Commercial Banks)
INDUSTRY NAMES: BUSN (Any type of business); REG (Business, Regional)
NAICS CODES: 52211 (Commercial Banking)
SPECIAL FEATURES: INDUSTRY; COMPANY

CARDTRAK
ONLINE

More in Ninety-Four

CardTrak

From the January 1994 Issue of CardTrak

Pricing pressure, marketing partnerships with major retail brands and cardholder rebate offers will continue this year producing an overwhelming number of options for consumers.

Average interest rates on bank credit cards plunged to 16.78% for the first month of 1994 forcing the average rate to another record setting low. For the first time in the industry's history both the weighted and unweighted average dipped below the 1977 Federal Reserve record of 16.89%. (The RAM Research straight average for January is 15.74% while the average weighted to marketshare is now 16.78%.)

While credit cards represent the most expensive form of borrowing for most consumers the gap between interest rates on bank credit cards and rates for other loans is beginning to shrink significantly.

20 YEAR AVERAGE LOAN RATE HISTORY
(Federal Reserve Data 1972-92)

YEAR	PRIME -	NEW AUTO	PERSONAL	CRT CRD
1972	4.67%	10.05%	12.46%	17.21%
1977	5.64%	10.92%	12.97%	16.89%
1982	14.86%	16.83%	18.65%	18.51%
1987	8.21%	10.46%	14.23%	17.93%
1992	6.25%	9.29%	14.04%	17.78%
1994	6.00%	8.62%	13.29%	16.78%

Look for the credit card interest rate war to heat up more in ninety-four. Single digit promotional and guaranteed interest rates will abound this year. The Prime Option MasterCard, marketed by Dean Witter, Discover & Company and issued by NationsBank, will turn the burner up a notch or two. (Prime Option will offer a 9.9% rate on new purchases and a prime +9.9% rate on purchases more than two billing cycles old. See December 1993 CardTrak for details.)

Leading the 94 battle among major issuers will be Wachovia Bank (Atlanta, 800-842-3262) offering a 6.0% rate for the first year, prime +3.9% afterwards. Other major issuers following Wachovia's aggressive lead: Signet, NationsBank, First USA, Bank One and Citibank. Among smaller issuers forging the way with single digit interest rates: AFBA Industrial Bank (Colorado Springs, 800-776-2265), Oak Brook Bank (Chicago, 800-536-3000), and Federal Savings Bank (Arkansas, 800-374-5600).

ENDANGERED ANNUAL FEES

The pricing war is not limited to interest rates. Annual fees have quietly faded since 1987 to the point whereby most cardholders do not pay an annual fee today. Among the top ten issuers approximately 62 million or 55% of accounts do not carry an annual fee.

Industry averages do not reflect the erosion of annual fees because most issuers today offer some kind of annual fee waiver including first year waivers, selective waivers to good accounts, or annual fee rebates based on account activity.

The nation's largest issuer was the last issuer among the top ten to cave in to the annual fee pressure. Citibank announced last month it was cutting annual fees for seven million cardholders.

Annual fees will continue to disappear in ninety-four. Eventually the annual fee will become a penalty fee similar to the late fee, assessed only on accounts with little or no activity.

All this pricing pressure spells one thing for consumers: B-A-R-G-A-I-N-S----G-A-L-O-R-E.

CO-BRANDED CARD EXPLOSION

Marketing partnerships with major retail brands or co-branded bank credit cards will continue to flood the marketplace this year.

The success of the General Motors MasterCard has yet to be duplicated. More than ten million consumers now carry the GM Card in the U.S and Canada and in excess of 100,000 consumers have used the rebates earned on their GM card to purchase a new GM product. GM is unleashing a U.K. version of the card this month.

As the year started Apple Computer and Citibank rolled out an imitation of the GM card. Look for dozens of co-branded cards to hit the streets over the next few months.

For consumers the wave of co-branded cards will require a careful review of the costs and benefits associated with these relatively new credit card programs before signing up.

INCREDIBLE REBATE OFFER

VISA and MasterCards offering rebates will continue to be fashionable with consumers this year.

The most innovative program and potentially the most successful credit card for 1994 is the new Cornerstone MasterCard issued by Mellon Bank (Pittsburgh, 800-INT-BACK).

This brand new program offers cardholders a 100% cash refund on all interest charges paid for the next twenty years. The only catch is you have to be an active Cornerstone Mastercard cardholder for twenty years to get the full 100% rebate. Cardholders may elect to collect their interest refund as early as two years but at a lesser percentage. For example after two years cardholders are eligible for a 10% refund, after three years a 15% refund, four years a 20% refund and an additional 5% for each additional year.

Like most credit card rebate programs the Mellon interest rate is high. Mellon is charging a prime +11.9% rate for the standard Cornerstone MasterCard and prime +8.9% for gold Cornerstone MasterCard. There is no annual fee for either card.

To determine if this card is a good deal you will obviously need a calculator. Our computations indicate this is truly an incredible offer.

While cardholders could possibly save up to 10% each year on other lower priced cards, the Cornerstone

MasterCard can return more dollars after twenty years than investing the annual savings difference. For example if you carry a $2,500 average balance, earn a 7% interest rate on accumulated savings and pay a 28% tax rate, you would receive a $9,000 refund after twenty years while a cardholder paying an interest rate eight percentage points lower would receive about $6,700.

Since investment rates and tax rates vary individually and may change radically over the next twenty years this may or may not prove to be a great deal. The bottom line is this is a long term relationship.

While the Cornerstone MasterCard is the first card to offer a 100% interest rate refund it may not be the last if it proves popular with consumers.

SECURED CARDS FLOURISH

This year more issuers will begin offering cards on a secured basis to consumers with no credit or poor credit. This relatively untapped market will explode in 94 as programs launched last year develop.

Late last year Federal Savings Bank (Arkansas, 800-374-5600) announced an 8.0% VISA card with a $55 annual fee for standard cards and a $70 annual fee for VISA Gold. Cardholders receive a 90% credit line for deposits ranging from $300 to $10,000.

Key Federal Savings (Maryland,800-235-7285) slashed interest rates from 21.99% to 18.90% this month.

The secured card market will continue to change this year as interest rates drop, application fees are eliminated, minimum deposits lowered and annual fees moderate.

EMERGING PRODUCTS

Debit cards, corporate cards, small business cards, procurement cards, prepaid cards and smart cards will finally take off this year. A debit card war is brewing between VISA and MasterCard. All types of business related cards will receive special focus this year by the industry. Prepaid cards and smart cards will be among this year's experiments.

Click Here for CardTrak Online

CARDWEB.com

DIALOG(R)File 15:ABI/INFORM(R)

00729051 93-78272
Wells Fargo's credit card is a natural advantage
Borowsky, Mark
Bank Management v69n6 PP: 18-22 Jun 1993 CODEN: MBAAA5 ISSN: 1049-1775
JRNL CODE: BAD
DOC TYPE: Journal article LANGUAGE: English LENGTH: 3 Pages
SPECIAL FEATURE: Charts
WORD COUNT: 1229

ABSTRACT: Wells Fargo Bank's April 15, 1993, announcement that it would tie mortgage rebates to credit card use has drawn praise from both credit card and mortgage industry analysts who say the Wells' California Advantage card can fight non-bank infiltration in both markets. However, other bankers seem less pleased. Previous attempts by banks to cross-sell credit cards to mortgage files had limited success.

TEXT: It appears as if Wells Fargo Bank has the credit card-mortgage connection to itself--at least for now. Wells' April 15 announcement that it would tie mortgage rebates to credit card use has drawn raves from both credit card and mortgage industry analysts, who say that San Francisco-based Wells' California Advantage card can fight non-bank infiltration in both markets. However, other bankers seem less than excited.

The California Advantage Card rebates 5% of all credit card purchases toward a Wells Fargo mortgage. But if bankers like Wells' idea, their enthusiasm is muted.

"In the past, everybody's tried to cross-sell credit cards to mortgage files with limited success," says Eugene Mitchell, president of U.S. Bank in Portland, OR.

Mitchell thinks that given banks' failures in the past, they will take a wait-and-see attitude toward the California Advantage concept. It's not surprising that bankers are leery. If the card draws new customers to Wells, it would be the first successful tie-in between credit cards and a bank product.

NO RUSH HER

"I don't see the whole industry rushing towards it," Mitchell says.

Bank mortgage originators that also run credit card operations, such as Fleet, Norwest and First Union, seem like natural imitators to Wells Fargo. Bank-owned card or mortgage companies could develop a huge nationwide market by copying Wells. Norwest currently offers credit card holders up to $250 off on closing costs for a mortgage through Norwest Mortgage.

"I don't know if we want to do the rebate," says William Branigan, executive vice president of Norwest Card Services in Des Moines, IA. Branigan does say that Norwest is looking at other credit card-mortgage tie-ins.

Before rebate-based cards like Discover, the AT&T Universal Card and the General Motors MasterCard, banks pretty much owned the entire credit card market. And before non-bank mortgage companies bared their teeth, banks and savings and loans dominated the mortgage market. Banks have tried to turn back both trends with limited success.

Despite the industry's reticence to copy Wells, banks will have to find a different strategy to compete with the non-bank credit card j issuers to keep their own card operations viable. The GM card, issued by Household Credit Services, snared two million accounts in record time, while the AT&T Universal Card has $6.6 billion in receivables and 11 million accounts, making it the nation's eighth largest. Despite cutthroat competition, the credit card industry had a healthy 1992.
Estimated profits for the industry were $3.33 billion, or a 1.87% return on assets. That was a 31% increase from 1991, when profits were $2.55 billion, with an ROA of 1.54%.

However, most attribute the profit swing to the low cost of funds, not increased credit card use. Competition is forcing issuers to lower interest rates and eliminate annual fees, and that will put more pressure on 1993 profits. Industry observers see 1992 as a blip, not an upward trend. The industry is unlikely to again reach the 2.3% ROA it enjoyed in 1990.

Banks must find a way to increase market share. Credit card receivables account for 6% of banks' assets--and 10% of their profits. The credit card market is no longer growing. Banks need to lure customers away from other issuers, and Wells' card is clearly designed to do that.

NEW CARDHOLDERS

"It's clearly a means to attract mortgage customers into the bank with a product they would like to have anyway," says Joel Friedman, a partner with Andersen Consulting in San Francisco. Wells Fargo is the latest bank to give a rebate with its credit card. In January, NationsBank unveiled its Start card, with which a percentage of purchases can be applied toward buying an annuity. Citibank is issuing the Ford credit card, which offers a rebate on Ford automobiles. But unlike Citi and NationsBank, Wells is offering a discount on a bank-owned product.

Wells Fargo may be able to beat GM and AT&T at their own rebate game, while increasing its mortgage business at the same time. The card, offered in both Visa and MasterCard versions, accrues rebate dollars up to $3,500 ($5,000 for a gold card) that can be applied to points and fees. Wells Faro issues credit cards to California residents only, but the rebate can be transferred to cardholders' families and relatives.

SHORING UP BUSINESS

Credit card-driven mortgage rebates could help stem market share loss in the card business, say card industry watchers. Few financial entities both issue credit cards and originate mortgages, giving banks a monopoly on the potentially lucrative concept.

Further, the California Advantage card could also shore up Wells' business in the ultra-competitive mortgage origination market. As interest rates have dropped, there's been plenty of mortgage business for banks, even in recession-saddled California. New cardholders could ensure Wells mortgage business when interest rates rise.

"(The California Advantage card) is not aimed at the refinancing customer, but new customers, because that's the type of mortgage market we're going to be in for the rest of this decade," says James Ketcham, senior vice president of Wells' mortgage lending division.

Like AT&T, Wells Fargo has a bigger goal than building a credit card portfolio. Over the past three years, banks and S&Ls have lost a huge chunk of the mortgage market. Non-banks now own more than 50% of the total market. "This is probably the most innovative program in terms of co-branding, and the most aggressive marketing," says Friedman. Wells Fargo is promoting

the card through mail, billboard, radio and television advertising.

California Advantage cardholders are not guaranteed approval for a mortgage. But the program could lead to lower chargeoffs for Wells Fargo. Customers faced with the prospect of a bad credit rating or losing their mortgage rebate may be more diligent in making credit card payments. "That would be an added benefit that we would be delighted with," says Barbara Brady-Smith, executive vice president of Wells' credit card division. "It certainly has some logic to it."

Although Wells Fargo is not a national issuer of credit cards or mortgages, the banking giant will have the advantage of being the first in the California market to offer such a product.

BEING FIRST PAYS

"In a lot of these cases, it does pay to be first," says Richard K. Weingarten, vice president of Mabon Securities Corp. in New York. "The affinity market is a different market than the vanilla bank card market."

That difference has clearly been demonstrated by the huge response to the General Motors MasterCard. GM returns 5% of every card purchase toward a GM car, up to $500 a year and $3,500 total over seven years. The California Advantage card has a 5% rebate up to $700 year and $3,500 over five years, with a variable interest rate (currently 16.9%) and a $25 annual fee. In addition, Wells Fargo is offering a 14.9% gold card version with an annual fee of $50, but with mortgage rebates of up to $1,000 a year and $5,000 total. The fact that Wells is offering a 5% rebate is no accident. The GM card and Citibank's Ford card also have a 5% rebate.

"The only magic is that's where the bar is--the rebate could go higher," says Donald Berman, president of consulting firm Cardholder Management Services Inc. in Plainview, NY. "The stakes are getting higher and higher, and the game harder and harder to play in. Five percent is a really steep rebate," he acknowledges.

THIS IS THE FULL-TEXT.
COMPANY NAMES: Wells Fargo Bank (DUNS:00-691-3404)
GEOGRAPHIC NAMES: US

DESCRIPTORS: Case studies; Banking industry; Credit cards; Advantages; Mortgages; Financial services
CLASSIFICATION CODES: 9110 (CN=Company specific); 8120 (CN=Retail banking); 9190 (CN=United States); 7000 (CN=Marketing)